

20. COMMUNITY AND REGIONAL DEVELOPMENT

Table 20-1. FEDERAL RESOURCES IN SUPPORT OF COMMUNITY AND REGIONAL DEVELOPMENT

(In millions of dollars)

Function 450	1996 Actual	Estimate					
		1997	1998	1999	2000	2001	2002
Spending:							
Discretionary Budget Authority	11,645	9,313	10,920	8,333	7,681	7,751	7,870
Mandatory Outlays:							
Existing law	317	343	-112	63	126	255	63
Proposed legislation		157	5	20		-15	-13
Credit Activity:							
Direct loan disbursements	1,963	2,313	2,460	1,908	2,118	2,210	2,143
Guaranteed loans	839	1,454	1,941	2,055	2,090	2,159	2,022
Tax Expenditures:							
Existing law	2,650	2,700	2,740	2,720	2,700	2,640	2,425
Proposed legislation		40	450	551	565	544	489

Federal support for community and regional development helps build the Nation's economy, and helps economically distressed urban and rural communities earn a larger share of America's prosperity. The Federal Government spends over \$12 billion a year, and offers about \$2.7 billion in tax incentives, to help States and localities create jobs and economic opportunity, and build infrastructure to support commercial and industrial development.

The needs of States and localities are varied and hard to measure. Still, Federal programs in this area have proved successful in creating stable and healthy communities that offer greater economic opportunity. The Government helps communities with basic infrastructure needs pay for constructing roads, improving water and sewage systems, and constructing affordable housing. For those affected by layoffs and rising job insecurity, Federal programs promote jobs skills through employment training and education, and promote access to jobs by helping businesses and rehabilitating commercial properties. Communities that are hard hit by natural disasters receive Federal assistance to rebuild infra-

structure, businesses, and homes. States and localities also use these Federal funds to leverage private resources for their community revitalization strategies.

Department of Housing and Urban Development (HUD)

HUD provides communities with flexible funds to promote commercial and industrial development; enhance infrastructure; clean up abandoned industrial sites, or "brown-fields"; and develop strategies for providing affordable housing close to jobs. HUD estimates that projects for which it provided economic assistance from 1993 to 1996 created or saved 1.4 million jobs.

Community Development Block Grant (CDBG): The CDBG program, for which the budget proposes \$4.6 billion, gives States and localities flexible funds for activities that meet one of three national objectives: (1) benefit low- and moderate-income persons, (2) help prevent or eliminate slums or blight, or (3) meet other urgent community needs that pose immediate threats to public health. Every Federal dollar spent for CDBG leverages an estimated \$2.31

in private and other investment. Communities spend CDBG funds to improve housing, public works, public services, and economic development, and to acquire or clear land.

Seventy percent of CDBG funds go to over 900 designated central cities and urban counties, the remaining 30 percent to States to award to smaller localities. CDBG's Section 108 Loan Guarantee Program gives Federal guarantees to private investors who buy debt obligations issued by local governments, thus giving communities efficient financing for housing rehabilitation, economic development, and large-scale physical development projects. Indian CDBG programs provide services for Native Americans, primarily focusing on public infrastructure, community facilities, and economic development. In 1996, 84 Tribes received a total of \$49 million in CDBG grants through competition.

HOME: The budget proposes \$1.3 billion in flexible HOME grants to States and communities to address their most severe housing needs. This program (classified in the Income Security function) generates an estimated \$1.80 in private and other investment for every Federal dollar spent. Eligible activities include new construction, rehabilitation, acquisition of standard housing, assistance to home buyers, and tenant-based rental assistance. From the program's inception in 1992 to June 1996, recipients have committed or used HOME funds to build or rehabilitate 201,000 housing units and to help 26,500 families pay their rent.

Department of Agriculture

The Agriculture Department (USDA) gives financial assistance to rural communities and businesses to provide safe drinking water and adequate wastewater treatment facilities; boost employment; and further diversify the rural economy. The budget proposes \$2.5 billion in such assistance. Grants, loans, and loan guarantees go for constructing rural community facilities, such as health clinics and day care centers; constructing water and wastewater systems; and creating or expanding rural businesses. USDA offers loan assistance for building community facilities and water and wastewater facilities at interest rates tied to the community's income—the

lowest-income communities receive significantly subsidized interest rates. These programs are designed to help rural communities with fewer than 10,000 residents. Since 1993, over 4,500 communities have received financial assistance to build or upgrade drinking water or wastewater systems, and the rural business and industry loan guarantee program has created or saved over 110,000 rural jobs.

Department of the Treasury

Treasury's Community Development Financial Institutions (CDFI) Fund, for which the budget proposes \$125 million, provides grants, loans, equity investments, and technical assistance to qualified CDFIs—including community development banks, low-income credit unions, microenterprise funds, and many multi-bank community development corporations. The assistance, which must be matched by comparable non-Federal money, is designed to promote economic revitalization and community development. Federal funds may be used for small business, low-income housing, community facilities, the provision of basic financial services, and other community development activities. In 1996, the CDFI Fund approved \$37 million for 32 CDFIs, serving 46 states and the District of Columbia. The fund also awarded \$13 million to 38 traditional banks and thrifts for increasing their activities in economically distressed communities and investing in CDFIs.

Department of the Interior

The Interior Department's Bureau of Indian Affairs (BIA), for which the budget proposes \$1.7 billion in 1998, helps Tribes, Native American organizations, and individuals develop resources to improve their economies through financial assistance programs, various loans and grants, assistance in getting financing from other sources, and technical assistance in using agricultural and rangeland resources. BIA's guaranteed business loans in 1996 generated about \$40 million in total financing, creating or sustaining over 1,700 jobs.

Each year, BIA helps Tribes manage 16 million acres of forest land and conduct timber sales of \$250 million that sustain over 10,000 forest and timber-related jobs, and helps Tribes manage mineral resources

and generate mineral income. BIA funds housing improvement and maintains over 4,500 single family housing units for BIA teachers and other reservation-based staff. Finally, BIA (with the Transportation Department) maintains and improves over 40,000 miles of public and BIA roads and 745 bridges, and addresses deficiencies at over 100 high-hazard dams on reservations.

The Tennessee Valley Authority (TVA)

The TVA adds to the prosperity of seven States by: (1) providing reliable supplies of electricity at rates that are among the Nation's lowest, (2) paying over \$250 million a year to State and local governments in lieu of taxes, and (3) operating economic and regional development programs that provide flood protection, recreational facilities, navigation, and various other services. The budget proposes \$106 million for these purposes, but TVA will develop a plan to eliminate Federal funding for these programs for 1999 and beyond. In 1997 and 1998, TVA will work with Congress, State and local governments, and other interested parties and undertake a major effort to find alternate ways to fund, organize, and manage these programs. The proposal reflects TVA's efforts over several years to decrease its reliance on Federal funds to finance its activities.

The Economic Development Administration (EDA)

The EDA creates jobs and stimulates commercial and industrial growth in economically distressed areas—rural and urban areas with high unemployment, a large share of poor people, or sudden and severe distress. EDA's public works grants help build or expand public facilities to stimulate and foster industrial and commercial growth. Typical projects include industrial parks, business incubators, access roads, water and sewer lines, and port and terminal developments. From 1992 to 1996, EDA awarded 821 public works grants, totaling \$810 million, to help economically distressed communities build these types of infrastructure projects.

EDA's capacity building grants help communities pay for expertise to plan, implement, and coordinate comprehensive economic development projects. The grants also provide

technical assistance to communities and firms to find solutions to problems that stifle economic growth. In addition, EDA's economic adjustment assistance grants help communities solve severe adjustment problems, such as those resulting from natural disasters and industry relocations or major downsizings. To date, EDA has approved 479 disaster recovery grants, totaling \$403 million, to help impacted communities recover from natural disasters that include hurricanes, flooding, earthquakes, and tropical storms.

Disaster Relief

The Federal Government provides financial help to cover a large share of the Nation's losses from natural hazards. Over the past several years, spending from the two major Federal disaster assistance programs—the Federal Emergency Management Agency's (FEMA) Disaster Relief Fund and the Small Business Administration's (SBA) Disaster Loan program—has risen significantly, and private casualty insurers experienced their five most costly natural disasters. Why? Because the natural hurricane cycle seems to be entering a phase in which more hurricanes strike our shores; demographic and economic growth has been great in hurricane- and earthquake-prone areas; and global climate changes or cyclical weather trends seem to be increasing the number and severity of events.

The Federal Government shares the costs with States for infrastructure rebuilding; makes disaster loans to individuals and businesses; and provides grants for emergency needs and housing assistance, unemployment assistance, and crisis counseling. In addition, the National Flood Insurance Program enables property owners to purchase flood insurance that's unavailable in the commercial market. To mitigate losses and in exchange for flood insurance, communities must adopt and enforce floodplain management measures to protect lives and new construction from future flooding. FEMA also encourages and supports mitigation measures before disasters strike by providing hazard mitigation grants, and sponsoring training, preparedness, and other planning events.

Tax Expenditures

The Federal Government provides several tax incentives to encourage community and regional development activities: (1) A 10 percent investment tax credit for rehabilitating buildings that were built before 1936 for non-residential purposes (costing \$340 million from 1998 to 2002); (2) tax-exempt bonds for airports, docks, and wharves, as well as high-speed rail facilities which need not be government-owned (costing \$9.3 billion over the same five years); (3) tax-exemptions

for qualifying mutual and cooperative telephone and electric companies (costing \$325 million over the five years); and, (4) tax incentives for qualifying businesses in economically distressed areas that qualify as Empowerment Zones—including an employer wage credit, higher up-front deductions for investments in equipment, tax-exempt financing, and accelerated depreciation (costing \$3.2 billion over the five years). In addition, the law provides tax credits for contributions to certain community development banks.